

Notice

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Office of Policy & Research

NOTICE 03-05

LOCAL SALES OR COMPENSATING USE TAX ON VEHICLE LEASES/RENTALS

The 2003 Kansas legislature enacted sales and compensating use tax changes that take effect **July 1, 2003**. These changes are part of a coordinated effort involving thirty-nine states and the District of Columbia referred to as the "Streamlined Sales Tax Project".

WHICH TAX RATE?

In essence, the new legislation requires that the:

1. lease or rental of a motor vehicle, **with recurring periodic payments**, is subject to the combined Kansas sales or compensating use tax rate in effect at the motor vehicle's primary location in Kansas;
2. lease or rental of a motor vehicle, **that does not require recurring periodic payments**, is subject to the combined Kansas sales or compensating use tax rate in effect at the location where the customer receives the motor vehicle.

What leases/rentals are affected:

All leases (short and long-term) and rentals of motor vehicles, trailers, semi-trailers and aircraft that do not qualify as "*transportation equipment*" are affected by this legislation. **This would include automobiles, trucks, motorcycles, trailers, semi-trailers and aircraft that are leased or rented.**

Qualifying "*Transportation equipment*" must be used in interstate commerce, and means any of the following:

1. locomotives and railcars that are utilized for the carriage of property in interstate commerce;
2. trucks and truck-tractors with a gross vehicle weight rating (GVWR) of 10,001 pounds or greater, trailers, semi-trailers or passenger buses that are:
 - A. Registered through the international registration plan; and
 - B. operated under authority of a carrier authorized and certificated by the United States department of transportation or another federal or a foreign authority to engage in the carriage of persons or property in interstate or foreign commerce;
 3. aircraft that are operated by air carriers authorized and certificated by the United States department of transportation or another federal or a foreign authority to engage in the carriage of persons or property in interstate or foreign commerce; and
 - D. containers designed for use on and component parts attached or secured on railcars,

trucks, truck-trailers, semi-trailers, buses or aircraft described in (d)(1), (d)(2) or (d)(3) above.

When does the new law go into effect?

The effective date of this law is July 1, 2003, and is applicable to each “;payment” or “periodic payment”. Therefore, the new law is applicable to all lease/rental payments due on or after July 1, 2003 regardless of when the lease or rental was entered into.

Examples – Lease/Rental With Periodic Payments Required:

#1 – On July 1, 2003 a car is leased from a Kansas automotive dealership by a customer who resides in Lawrence, Kansas for \$500.00 per month for 48 months, plus sales tax. The rate of Kansas retailers’ sales tax to be collected on each lease payment by the Kansas dealership is the rate of sales tax in effect at the vehicle’s primary location . This would be the combined State (5.3%), County (1%) and City (1%) rate of tax in effect in Lawrence, Kansas (total combined sales tax rate of 7.3%).

#2 – On August 1, 2000 a car is leased from a Kansas automotive dealership by a customer who resides in Lawrence, Kansas for \$500.00 per month for 48 months, plus sales tax. The rate of Kansas retailers’ sales to be collected on each lease payment due ON OR AFTER JULY 1, 2003 is the rate of sales tax in effect at the vehicle’s primary location . This would be the combined State (5.3%), County (1%) and City (1%) rate of tax in effect in Lawrence, Kansas (total combined sales tax rate of 7.3%).

#3 – On July 1, 2003 a car is leased from GMAC via a Missouri automotive dealership by a customer who resides outside of the city limits of Lawrence, Kansas but, within Douglas County for \$500.00 per month for 48 months, plus tax. The rate of Kansas retailers’ compensating use tax due on each lease payment received by GMAC is the same as the rate of sales tax in effect at the vehicle’s primary location . This would be the combined State (5.3%), County (1%) rate of tax in effect in Douglas County, Kansas (total combined compensating tax rate of 6.3%).

Examples – Lease/Rental Without Periodic Payments Required:

#1 – On July 1, 2003 a car is rented from a Liberal, Kansas business by a customer for \$150.00 per week for two weeks, plus sales tax, all payable at the time the customer takes delivery of the car. The rate of Kansas retailers’ sales to be collected on \$300 (\$150 X 2) payment received is the rate of sales tax in effect where the customer took delivery . Typically, customers take delivery at the rental business’ location. In this example, the combined rate of sales tax due is the rate in effect in Liberal, Kansas. This would be the combined State (5.3%), County (1%) and City (1%) rate of tax in effect in Liberal, Kansas (total combined sales tax rate of 7.3%).

The 2003 legislation changes last year’s legislation (2002 House Bill 3032) which required, in general, for purchasers and lessees of vehicles to pay the highest sales tax rate in effect at either the seller’s location or the customer’s location. **The 2003 changes do not apply to sales of vehicles** , and the department’s NOTICE 02-05 with regard to **sales** of vehicles should continue to be followed. Only **leases and rentals** of motor vehicles, trailers, semi-trailers and aircraft that do not qualify as “*transportation equipment*” are affected by this new legislation.

Entities who are currently reporting the Local Compensating Tax, on Form CT-4L, (the amount of tax due when the rate of tax at the dealer’s location was lower than the rate in effect at the registered address of the vehicle) on **leases** will no longer be required to collect, report or remit that tax on lease payments due after June 30, 2003. Beginning July 1, 2003, the above information and examples with regard to **leases and rentals** of motor vehicles, are to be followed instead.

In summary, the gross receipts received on the lease or rental of motor vehicles, trailers, semi-trailers and aircraft (that do not qualify as “ transportation equipment”), on and after July 1, 2003, will be subject to either to:

1. Kansas retailers' sales tax* and it will reported on Form ST-36 or PC File.
2. Kansas retailers' compensating use tax** and it will be reported on Form CT-114

*Kansas retailers' sales tax is due when the lease/rental transaction occurs in the state of Kansas and the motor vehicle, trailer, semi-trailer or aircraft's primary location is located within the state of Kansas.

**Kansas retailers' compensating use tax is due when the lease/rental transaction takes place outside of the state of Kansas and the motor vehicle, trailer, semi-trailer or aircraft's primary location is located within the state of Kansas.

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